

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 28, 1983

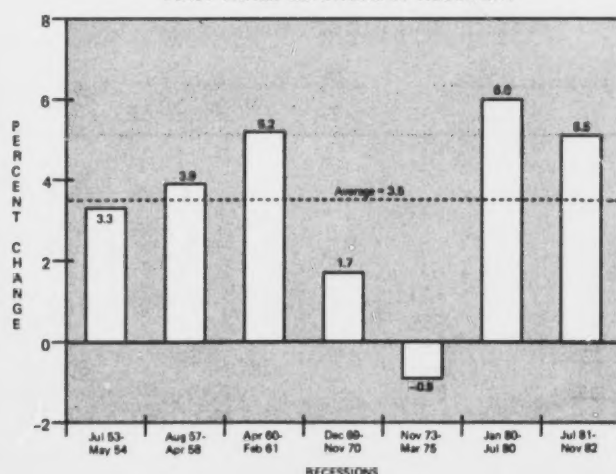
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Capital Spending . . .

A welcome development accompanying the current upturn in economic activity is the revival of capital spending. The continued rise in final demand, the rebuilding of inventories, stepped-up output by the nation's factories and the consequent rise in capacity utilization seem to have boosted businessmen's confidence in the strength of the recovery. As a result, spending on plant and equipment in the first nine months of this year posted one of the strongest post-recession upturns in the past 30 years (Chart I).

But although capacity utilization has grown at a faster pace than it normally does after a recession (Chart II), it seems that at this point in the recovery many businessmen are not providing much for expansion of total capacity. They are not building new factories, office buildings, shopping centers, warehouses, among others, but rather buying more modern equipment that will cut costs and improve efficiency of their existing—even underutilized—production lines.

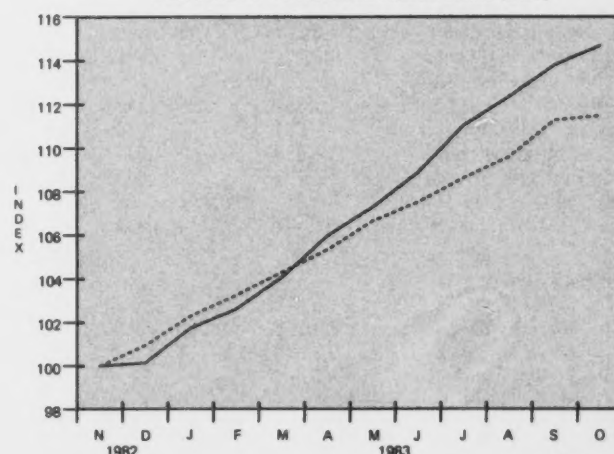
CHART I
REAL NONRESIDENTIAL FIXED INVESTMENT
FIRST THREE QUARTERS OF RECOVERY



With the dollar overvalued vis-a-vis other major currencies, imports have become cheaper, making inroads into domestic markets. Improved efficiency and higher productivity are the only ways domestic

manufacturers can become more competitive. Thus, all of the \$9.4 billion annual rate rise in real nonresidential-fixed investment since the first quarter of 1983 came from equipment purchases, with real spending on business structures actually dropping by nearly \$1 billion during this period. However, spending on nonresidential structures rose in the third quarter compared with the second, following seven quarters of declines.

CHART II
GROWTH IN CAPACITY UTILIZATION
CURRENT RECOVERY (LINE)
AVERAGE OF 7 PREVIOUS RECOVERIES (DOT)



. . . Is On The Rise . . .

The stepped-up rate of investment was concentrated mainly in those durable goods where spending took the biggest plunge during the recession. This advance was paced by sharply increased purchases of motor vehicles. Business investment in cars, trucks and buses has risen by more than 25 percent since the end of last year—a development contributing to the sharp turnaround in the motor vehicle industry. Production of trucks, for example, is up 55 percent over a year ago. And, despite the fact that Detroit is now building 60 percent more cars than at this time last year, car dealers are having trouble keeping up with demand and are reporting shortages of standard and luxury models. Inventories fell to a mere 48 days' supply at the beginning of November.



... Concentrating On ...

What is more, investment in office machinery continues its eight-year expansion, rising by more than 20 percent since the end of last year. Responding to the improvement in construction activity, spending on construction equipment has risen by 29 percent in the six months ending in September to \$1.2 billion—although that is still nearly 80 percent less than the 1978 peak. But spending is not taking off in all areas. The severe drop in farm incomes since 1979 has hurt spending for such agricultural machinery as tractors and combines. The financial problems of the airline industry—stemming partially from ongoing price wars—have depressed demand for new aircraft.

... Cost-Cutting Equipment

An important contributor to the surge in capital investment has been improved profitability. Even as sales accelerated, management was able to keep a firm grip on costs—primarily because of modest wage gains, rising productivity and the consequent decline in unit labor costs. As a result, after-tax profits jumped by 31 percent during the six months ending in September—posting the biggest six-month advance since 1950.

What is more, when the generous depreciation schedules from the Administration's Economic Recovery Act—which went into effect in 1981—are included, many companies experienced an even greater improvement in their cash flow. In fact,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/16/83	S Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	156.639	+ 3.111	+12.759
Loans to Depository Inst.	1.024	— .019	+ .282
Float	2.019	— .069	— .688
Total Reserve Bank Credit	168.232	+ 2.462	+11.468
Treasury Deposits with			
Federal Reserve Banks	3.207	+ .300	+ .099
Currency Outside Banks	148.312	+ 1.519	+13.323
Member Bank Reserves:			
Required	37.397	+ .547	— 3.738
Excess (Deficiency)	.631	+ .030	+ .233
Total Reserves Held	38.028	+ .577	— 3.505
Net Borrowed Reserves	.277	— .039	+ .169
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.117	— 1.867	+ 7.745
		% Change Since	
		Three Months Ago*	Year Ago
Monetary Aggregates †			
M1 (11/9/83)	517.8	+ 0.2‡	+ 9.8‡
M2 (October '83)	2,161.0	+ 6.5	+ 12.0
M3 (October '83)	2,560.9	+ 8.1	+ 8.9
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

* Seasonally adjusted annual rate.

‡ Four-week moving average.

† Seasonally adjusted.

New York Money Market

Offering Rates 11/23/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.75%	8.90%	9.00%
* Federal Agencies	9.10	9.50	9.75
* Project Notes—Taxfree (46% Taxable Equivalent)	9.54	9.91	10.74
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.35	9.45	10.00
‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5-14 days	8.75%	Dec.	9.15%
15-29 days	8.88	Jan.	9.15
30-59 days	9.05	Feb.	9.15
60-89 days	9.10	Mar.	9.15
90-179 days	9.10	Apr.	9.15
180-239 days	9.00	May	9.10
240-270 days	9.00		
‡ Industrial Paper—Prime		† Federal Funds Effective Rate	9.40%
30-89 days	9.10%		
90-120 days	9.10		

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	\$ 3,360 r	\$ 3,272	\$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	\$ 1,554 r	\$ 1,525	\$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.7 r	9.7	— 1.0
Change in Consumer Prices (new series)*	Oct '83n	4.8%	6.0%	4.8%
Change in Producer Prices*	Oct '83	3.6%	2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Oct '83	101,928	101,945	99,176
Unemployment as % of Civilian Labor Force †	Oct '83	8.8%	9.3%	10.5%
Personal Income*	Oct '83n	\$ 2,819	\$ 2,786 r	\$ 2,618
Leading Indicators Composite Index (1967=100) †	Sep '83	160.2	158.7	137.5
Industrial Production Index (1967=100) †	Oct '83	154.8	153.6	135.7
Net Change in Consumer Installment Credit †	Sep '83	\$ 2.38	\$ 3.39	\$ 1.26
U.S. Merchandise Trade Balance †	Sep '83	—\$ 5.81	—\$ 7.19	—\$ 4.20
Plant and Equipment Expenditures*	4th Q'83	\$326.73(a)	\$313.04(a)	\$303.18
Private Housing Starts (Thousands of Units)*	Oct '83	1,608	1,672	1,142
New Construction Expenditures*	Sep '83	\$ 272.7	\$ 274.8	\$ 230.7
Total Business Inventories †	Sep '83	\$ 513.8	\$ 510.4	\$ 521.0
Total Business Sales †	Sep '83	\$ 380.0	\$ 374.4	\$ 342.9

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n—Newly reported figure.

r—Revised.

a—Anticipated.

corporate cash flow relative to GNP is now some seven percent higher than the average of the previous six recoveries. This has enabled corporations to pay for new projects with internally-generated funds, avoiding the still high cost of debt.

The outlook for investment spending thus is encouraging—at least for the near term. Order books for durables and nondurables have been filling up quickly. October's orders for durables were three percent higher than in September and backlogs are expanding. The National Machine Tool Builders' Association says that for the month of September, net new orders showed an 80 percent gain from the same month a year ago. Meanwhile, the National Association of Purchasing Management reports that

suppliers are taking longer to fill orders—meaning that plants are increasingly "busy." In fact, the number of companies reporting slower deliveries in October was the highest since April, 1979.

This rosy view was confirmed by a survey recently taken by McGraw-Hill. It shows that next year, business purchases of new plant and equipment are slated to rise by 9.4 percent, before adjusting for inflation, to \$333.4 billion. But actual spending levels may be much higher, the report suggests. As in the case with many surveys, it tends to under-shoot when the economy is rising swiftly, because businessmen tend to be more pessimistic after a recession and take their time before convinced of the recovery's sustainability.

H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Year Ago
Negotiable Time CD's			
Weekly Reporting Banks			
Nationwide (11/9/83)	88,317	- 102	-55,963
New York City (11/9/83)	18,143	- 385	-20,552
Commercial Paper (11/9/83)	180,943	+ 1,849	+11,641*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (11/9/83)	218,664	+ 1,846	+ 1,226
New York City (11/9/83)	58,687	+ 728	- 2,625
Total Loans Gross Adjusted			
	Latest Week	Change Since Week Ago	Year Ago
Nationwide (11/9/83)	522,278	+ 705	+20,032
New York City (11/9/83)	119,800	- 1,192	+ 620

Financial Markets

	Wednesday 11/23/83	Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Billst	9.15%	+ .02	+ 1.00
180-Day Billst	9.50	-0-	+ 1.00
Longest Billst	9.85	-0-	+ .90
Recent Issues:			
10 ¹ / ₂ s 10/31/85	10.60	-0-	
11 ¹ / ₈ s 9/30/87	11.10	- .05	
11 ³ / ₄ s 11/15/93	11.55	- .13	
12s 8/15/13	11.64	- .11	
Municipals:			
Bond Buyer—20 Bond Index* (11/17/83)	9.70%	- .05	- .50
Blue List Total (\$ Million) (11/18/83)	\$1,481	+\$ 145	+ \$ 91
30-Day Visible Supply (\$ Million) (11/18/83)	\$3,313	-\$ 172	- \$2,443
Total	\$4,794	-\$ 27	- \$2,352
Corporates:			
Moody's Aa Composite (11/22/83)	12.61%	+ .02	+ .07
30-Day Visible Supply (\$ Million)	\$ 700	-\$ 575	- \$ 660
Stocks:			
Dow-Jones Averages:			
Industrials	1,275.71	+ 24.39	+ 275.71
Transportation	610.05	+ 11.77	+ 189.04
Utilities	137.72	- .77	+ 21.12
65 Stocks	512.57	+ 8.18	+ 122.62
Standard and Poor's 500 Stocks	166.96	+ .88	+ 33.08
N.Y.S.E. Composite Index	96.40	+ .51	+ 18.80
N.Y.S.E. Avg. Daily Vol. for Week (000's)	98,530	+16,310	+ 25,864

* 46% Taxable equivalent 17.96%.

† Bond equivalent.

International Rates

	Wednesday 11/23/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.19%	9.38%
1 month	9.31	9.50
3 month	9.69	9.75
6 month	9.88	9.94
1 year	10.19	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.60%
Long Term (7 to 15 yrs.)	11.65	11.70
FOREIGN EXCHANGE SPOT RATES		
New York Opening	U.S. \$	Currency
(11/23/83)	Equivalent	Per U.S. \$
Belgium	.01825	54.78
Canada	.8086	1.2367
Denmark	.1029	9.7195
France	.1220	8.1975
Germany	.3717	2.6907
Italy	.0006139	1629.00
Japan	.004269	234.25
Mexico	.006116	163.50
Netherlands	.3310	3.0210
Switzerland	.4607	2.1705
U.K.	1.4705	.6800



Quality. Loyalty. Consistency.

Some things shouldn't change. And these three words express the abiding philosophy which sets Manufacturers Hanover apart from other global financial institutions. At Manufacturers Hanover a lot of good people make this philosophy live. They put quality into the services we offer, make loyalty to our customers paramount, and give consistency to our approach and performance. If you value character as well as size and scope, consider Manufacturers Hanover. The Financial Source—worldwide.

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